

Employees Retirement System  
Summary of Budget Recommendations - Senate

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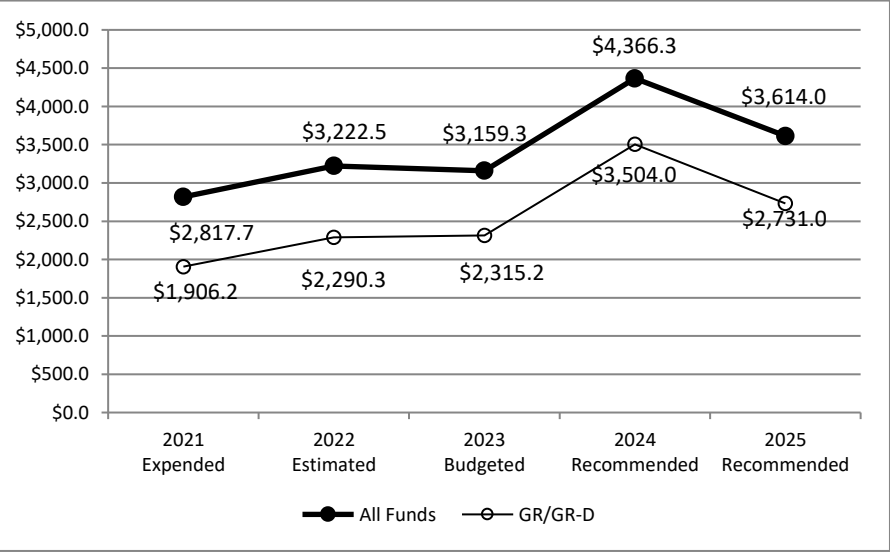
Method of Financing	2022-23 Base	2024-25 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$4,262,703,536	\$5,931,625,496	\$1,668,921,960	39.2%
GR Dedicated Funds	\$342,790,945	\$303,322,794	(\$39,468,151)	(11.5%)
Total GR-Related Funds	\$4,605,494,481	\$6,234,948,290	\$1,629,453,809	35.4%
Federal Funds	\$1,039,160,089	\$974,431,345	(\$64,728,744)	(6.2%)
Other	\$737,127,282	\$770,974,882	\$33,847,600	4.6%
All Funds	\$6,381,781,852	\$7,980,354,517	\$1,598,572,665	25.0%

	FY 2023 Budgeted	FY 2025 Recommended	Biennial Change	Percent Change
FTEs	424.0	436.0	12.0	2.8%

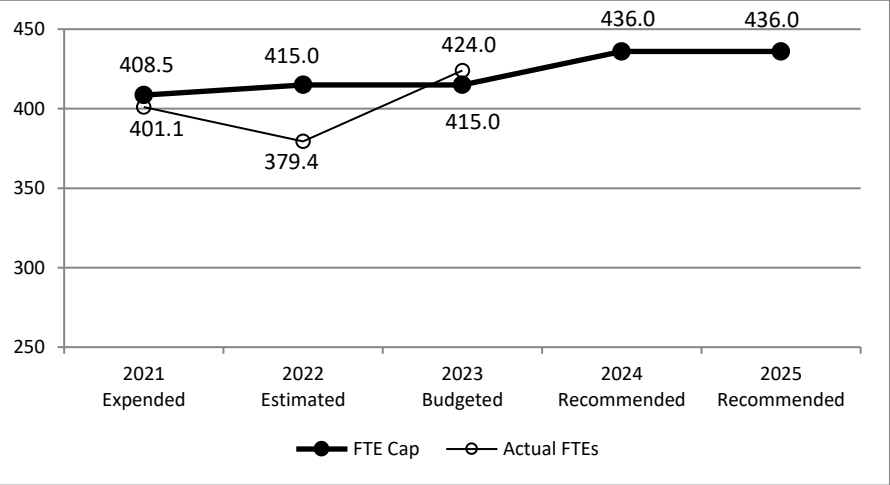
The decline in recommended funding between fiscal year 2024 and fiscal year 2025 is due to recommended one-time funding in fiscal year 2024 to eliminate the unfunded liabilities for the Law Enforcement Custodial Officer Supplemental Retirement Plan (LECOS) and Judicial Retirement System Plan II (JRS II).

The bill pattern for this agency (2024-25 Recommended) represents an estimated 12.7% of the agency's estimated total available funds for the 2024-25 biennium.

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



**Employees Retirement System**  
**Summary of Funding Changes and Recommendations - Senate**

Funding Changes and Recommendations for the 2024-25 Biennium compared to the 2022-23 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
<b><i>SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):</i></b>							
A)	Increase for ERS Retirement Program contributions due to state salary adjustments and payroll growth.	\$207.1	\$5.9	(\$3.0)	\$17.1	\$227.1	A.1.1
B)	Increase in Law Enforcement Custodial Officer Supplemental Retirement Plan (LECOS) due to funding to eliminate the unfunded liability and increase the state contribution rate for this plan.	\$788.7	\$0.8	\$0.2	\$0.0	\$789.8	A.1.2
C)	Increase in Judicial Retirement System Plan II (JRS II) due to funding to eliminate the unfunded liability and increase the state contribution rate for this plan.	\$109.5	\$0.0	\$0.0	\$1.9	\$111.4	A.1.3
D)	Increase in All Funds for Public Safety Death Benefits due to an increase in line of duty deaths related to COVID-19. Additionally, a method of finance swap replaces funds from GR-Dedicated Fund 469 (Compensation to Victims of Crime) with General Revenue funds.	\$40.3	(\$24.2)	\$0.0	\$0.0	\$16.2	A.1.5
E)	Increase in Legacy Payments due to an increase General Revenue funds used to cover the shortfall in the 2022-23 biennium from GR-Dedicated, federal, and other funds. The legacy payments are a requirement of SB 321, 87th Legislature, Regular Session.	\$237.7	(\$28.6)	(\$13.7)	(\$12.0)	\$183.4	A.1.7
F)	Increase for Group Benefits Program state contributions due to growth among active and retired members.	\$280.3	\$6.6	(\$48.3)	\$26.8	\$265.5	B.1.1
<b><i>OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):</i></b>							
G)	Increase for Retiree Death Benefits due to anticipated increased claims.	\$3.1	\$0.0	\$0.0	\$0.0	\$3.1	A.1.6
H)	Overall increase for Judicial Retirement System Plan I and Probation Health Insurance due to growth among retired members participating in Probation Health Insurance.	\$2.2	\$0.0	\$0.0	\$0.0	\$2.2	A.1.4, B.1.2
<b>TOTAL SIGNIFICANT &amp; OTHER Funding Changes and Recommendations (in millions)</b>		<b>\$1,668.9</b>	<b>(\$39.5)</b>	<b>(\$64.7)</b>	<b>\$33.8</b>	<b>\$1,598.6</b>	As Listed
<i>SIGNIFICANT &amp; OTHER Funding Increases</i>		\$1,668.9	\$13.3	\$0.2	\$45.8	\$1,598.6	As Listed
<i>SIGNIFICANT &amp; OTHER Funding Decreases</i>		\$0.0	(\$52.8)	(\$65.0)	(\$12.0)	\$0.0	As Listed

NOTE: Totals may not sum due to rounding.

**Employees Retirement System  
Selected Fiscal and Policy Issues - Senate**

1. **Employees Retirement System.** Recommendations for the 2024-25 biennium total \$1.6 billion in All Funds (\$1.1 billion in General Revenue-Related Funds) for the system that provides a defined retirement benefit to state employees and elected officials. This is an All Funds increase of \$227.1 million (16.1 percent) and a General Revenue-Related increase of \$213.0 million (23.0 percent). Recommendations are based on the following assumptions:
  - Continued state and agency contribution rates of 9.5 and 0.5 percent respectively;
  - 0.77 percent payroll growth for state agency employees in fiscal years 2023, 2024, and 2025;
  - 3.2 percent payroll growth for higher education employees in fiscal years 2023, 2024, and 2025;
  - Method of finance swaps in fiscal year 2022 of General Revenue funds with federal COVID-19 funds at the Texas Department of Criminal Justice, the Department of Family and Protective Services, the Department of State Health Services, and the Health and Human Services Commission. This swap is reversed in fiscal year 2023 and subsequent years.
  - FTE growth at the Permanent School Fund Corporation, the Railroad Commission of Texas, and the Texas Water Development Board. The FTE growth at the Railroad Commission and Texas Water Development Board are all federally funded as a result of the Infrastructure Investment and Jobs Act; and
  - Statewide salary adjustments.
2. **Implementation of SB 321, 87<sup>th</sup> Legislature, Regular Session.** This legislation revised the contribution structure and retirement benefits for members of the Employees Retirement System (ERS) and the Law Enforcement and Custodial Supplemental Retirement Fund (LECOS). It restructured the retirement benefit for members of both plans hired on or after September 1, 2022, from an average salary defined benefit to a cash balance defined benefit. Members hired after this date will contribute 6.0 percent of their compensation into an individual account, which is guaranteed an annual 4.0 percent interest and opportunity for an additional 3.0 percent in gain sharing, depending on trust fund annual investment returns. These employees will be vested after 5.0 years of service and will receive a lifetime annuity equal to the member's accumulated balance plus a state match of 150.0 percent of that account balance at retirement. LECOS members will contribute an additional 2.0 percent to the LECOS cash balance benefit, which receives a 300.0 percent state match benefit.
3. **Legacy Payments for SB 321.** This legislation also required the state to make legacy payments in the amount necessary to amortize ERS' unfunded actuarial liability by the end of fiscal year 2054. House Bill 2, Eighty-seventh Legislature, Regular Session, 2021, made supplemental appropriations to ERS for the 2020-21 biennium of \$1,020.0 million in All Funds for part of these legacy payments. HB 2 stipulated the following method of finance:
  - \$678.3 million General Revenue
  - \$52.0 million General Revenue-Dedicated
  - \$171.4 million Federal Funds
  - \$14.3 million Other Special State Funds
  - \$104.0 million State Highway Fund 6

The estimated shortfall in these legacy payments is \$165.6 million, with most of the shortfall coming in federal funds. As a result, ERS has requested a supplemental appropriation to cover this shortfall and has also requested an exceptional item to replace federal funds with General Revenue funds in future years. The recommendation for the 2024-25 biennium is to fund legacy payments entirely through the use of funds from General Revenue (\$916.0 million) and State Highway Fund 6 (\$104.0 million).

Article IX, Section 17.17, Supplemental Appropriations Bill, Senate Bill 1, as introduced, indicates it is the intent of the Legislature to provide funding in the supplemental appropriations bill for an additional \$1.0 billion for a one-time legacy payment to further amortize ERS' unfunded liability and to reduce long-term costs.

4. **Law Enforcement and Custodial Officers Supplemental (LECOS) Retirement Plan.** LECOS provides a supplemental retirement benefit to law enforcement and custodial officers in addition to their benefit as state employees through the ERS plan. Recommendations for the 2024-25 biennium total \$808.2 million in All Funds including \$807.9 million in General Revenue-Related Funds.

The current state contribution rate is 0.5 percent. The member contribution rate is 0.5 percent for employees who began state service before September 1, 2022 and 2.0 percent for employees who began state service on or after September 1, 2022. In addition to state and member contributions, the fund also receives court fees which are assumed to be \$15 million per year for the 2024-25 biennium.

The 2021 Actuarial Valuation found that the LECOS funding period is infinite with an expected depletion date of 2050. The unfunded liability in 2021 was \$653 million, and the funded ratio is 60.5 percent. According to ERS, in order to make the fund actuarially sound, changes must be made to cover the normal cost and to pay off the unfunded liability. The normal cost of the program is the cost to provide for employee retirement benefits earned each year.

Recommendations include the addition of \$38.8 million in All Funds to increase the state contribution rate by 1.0 percent, from the current 0.5 percent to 1.5 percent, to cover the normal cost of the plan. Recommendations also include a lump sum payment of \$750 million in General Revenue in fiscal year 2024 to pay off the unfunded liability of the plan.

5. **Judicial Retirement System Plan Two (JRS II).** JRS II provides a defined retirement benefit to state judicial officers who first took office on or after September 1, 1985. Recommendations for the 2024-25 biennium total \$140.0 million in All Funds and \$129.7 million in General Revenue Funds.

The 2021 Actuarial Valuation found that the funding period for this plan is infinite with an expected depletion date of 2076. The unfunded liability is \$95 million, and the funded ratio is 84.6 percent. According to ERS, in order to make the plan actuarially sound, changes must be made to cover the normal cost and to pay off the unfunded liability.

Recommendations include the addition of \$6.5 million in All Funds to cover the normal cost of the plan by increasing the state contribution rate by 3.6 percent, from the current 15.66 percent to 19.25 percent. Recommendations also include a lump sum payment of \$105 million in General Revenue in fiscal year 2024 to pay off the unfunded liability of the plan.

6. **Public Safety Death Benefits.** Chapter 615 of the Government Code provides for a lump sum payment by the state to the survivors of certain public law enforcement and firefighting personnel who are killed in the line of duty. The lump sum payment for a death occurring on or after September 1, 2022 is \$554,000. Recommendations for the 2024-25 biennium total \$103.7 million in All Funds, which is \$51.9 million annually. This is a substantial increase from ERS' annual estimate of \$13.8 million for the 2022-23 biennium. ERS indicates that the increase in the estimate for this program is due to deaths related to COVID-19 during the last two years. Due to the substantial increase in estimated funds in this strategy, and in the event the increase turns out not to be as great as anticipated, recommendations include a new rider to prohibit funds that are not spent from this strategy from being transferred to another strategy in the agency's bill pattern.
7. **Group Benefits Program (GBP).** Recommendations include \$4.1 billion in All Funds (\$2.9 billion in General Revenue-Related Funds) to provide state employees and retirees with health and life insurance. This is an increase over the previous biennium of \$265.5 million All Funds (7.0 percent) and \$286.9 million General Revenue-Related Funds (10.8 percent). Recommendations assume that:

- the state will continue to contribute the full cost of member-only group insurance and fifty percent of family coverage;
- full-time-equivalent employment levels will grow at the Permanent School Fund Corporation, the Railroad Commission of Texas, and the Texas Water Development Board;

- retiree membership will grow 3.5 percent in fiscal years 2023, 2024 and 2025;
- active membership will grow 1.0 percent in fiscal years 2024 and 2025; and
- the state’s per-member contribution to insurance will not increase in fiscal years 2023, 2024 and 2025.

Recommendations align with ERS’s Legislative Appropriations Request which indicates that no additional per-member state contributions above the base level would be necessary.

In fiscal year 2021, approximately 42,000 HealthSelect members filed claims for COVID-19 cases, which resulted in total cost to the GBP of \$126.9 million. The figure below shows that the estimated net cost impact of cases related to COVID-19 to GBP in fiscal year 2021 was \$107.3 million.

**Net Cost of COVID-19 to the Group Benefits Plan, Fiscal Year 2021**

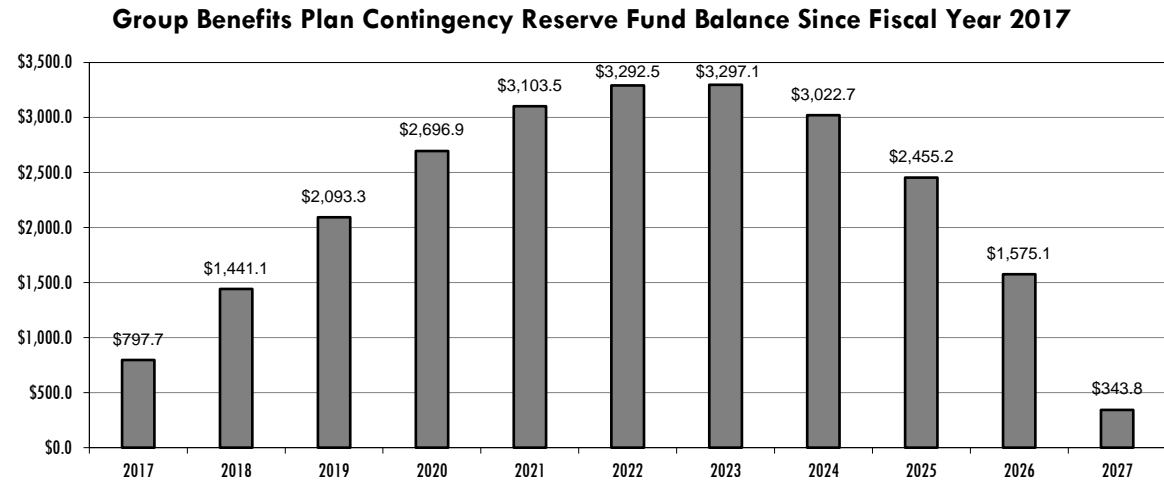
Cost of claims for COVID-19 cases	+	Diagnostic testing	+	Vaccine administration	-	Fewer medical services than expected on services unrelated to COVID-19	=	Net cost impact
\$126.9 million		\$31.7 million		\$6.5 million		\$57.8 million		\$107.3 million

According to ERS, the projected trend for HealthSelect of Texas® combined medical and pharmacy plan costs for plan year 2023 is 5.7 percent, which includes 3.9 percent for medical benefits and 10.0 percent for prescription drug benefits. The table below shows Health Select trends since fiscal year 2015, projected through fiscal year 2025. The largest amounts are for prescription drug benefits.

**Health Select Trends Since Fiscal Year 2015**

	FY '15	FY '16	FY '17	FY '18	FY '19	FY '20	FY '21	FY '22 est	FY '23 est	FY '24 est	FY '25 est
Medical	5.0%	7.5%	4.9%	-12.7%	3.0%	-0.8%	13.2%	4.9%	3.9%	5.6%	5.6%
Prescription Drug	12.7%	11.0%	-2.9%	4.3%	7.2%	5.6%	8.6%	11.2%	10.0%	10.0%	10.0%
Total	6.8%	8.4%	3.0%	-8.7%	4.1%	0.9%	11.9%	6.7%	5.7%	6.9%	6.9%

8. **Contingency Reserve Fund Balance.** The Contingency Reserve Fund receives all revenues for the Group Benefits Program (GBP) and makes expenditures to cover claims costs. Chapter 1551.211(a) of the Texas Insurance Code requires ERS to maintain funds in the reserve to cover expenditures for an average 60 day period. The GBP Annual Report of February 2022 projected the fund to be \$3.3 billion at the end of fiscal year 2023; \$3.0 billion at the end of fiscal year 2024; and \$2.5 billion at the end of fiscal year 2025. ERS projects the fund would be fully depleted sometime in fiscal year 2027, mostly due to the projected increases in health care expenditures.



Note: Figures are in millions; fiscal years 2022 to 2027 are projected.

9. **Legal Authority and Trust.** The Texas Constitution directed the Legislature to establish the Employees Retirement System and Government Code §815.103 provides that the ERS Board of Trustees 1) shall hold all retirement system assets in trust for the exclusive benefit of the members and annuitants, and 2) administer all operations funded by trust assets for the same purpose. Statute specifies that the Board and executive director may acquire, manage, and sell any of the system’s assets, and exempts ERS from some statutory requirements such as certain contracting and risk management practices.

ERS’s status as a constitutionally-created agency and its trust fund structure are both uncommon among state agencies. In practice, ERS operates from three pension trusts and the Group Benefits Program trust. Legislative appropriations made to ERS are deposited into the appropriate trust and administrative expenses are allocated across respective funds. The balance at the beginning of fiscal year 2024 is estimated to be \$37.3 billion for these four funds.

**Employees Retirement System  
Rider Highlights - Senate**

**Modification of Existing Riders**

2. **Informational Listing of Appropriated Funds.** Revise rider to reflect benefit recommendations for the 2024-25 biennium.
4. **State Contribution to Employees Retirement Program.** Revise rider to reflect retirement benefit recommendations for the 2024-2025 biennium.

**Article IX.**

- 17.03 **Payroll Contribution for Group Health Insurance.** Revise rider to reflect estimates for the 2024-25 biennium.
- 17.06 **Additional Payroll Contribution for Retirement Contribution.** Revise rider to reflect estimates for the 2024-25 biennium.

**New Rider**

18. **Public Safety Death Benefits.** Recommendations add rider to prohibit funds in ERS' bill pattern estimated for Public Safety Death Benefits that are not spent from being transferred to another strategy in the agency's bill pattern.

Employees Retirement System  
Items Not Included in Recommendations - Senate

	2024-25 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2026-27
	GR & GR-D	All Funds	FTEs			

Agency Exceptional Items Not Included (in agency priority order)

1)	Cover Normal Cost and Unfunded Liability for LECOS based on updated Actuarial Valuation. This exceptional item provides additional funding for the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS) in order to eliminate the unfunded liability and cover the normal cost of this plan. This funding is in addition to funding contained in the agency's LAR due to an updated actuarial valuation released in December.	\$24,794,407	\$24,879,299	0.0	No	No	\$16,661,896
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TOTAL Items Not Included in Recommendations		\$24,794,407	\$24,879,299	0.0			\$16,661,896
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**Employees Retirement System  
Appendices - Senate**

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\* Appendix is not included - no significant information to report

**Employees Retirement System**  
**Funding Changes and Recommendations by Strategy - Senate -- ALL FUNDS**

Strategy/Goal	2022-23 Base	2024-25 Recommended	Biennial Change	% Change	Comments
ERS RETIREMENT PROGRAM 1.1.1	\$1,414,538,118	\$1,641,627,903	\$227,089,785	16.1%	Recommendations reflect an increase of \$227.1 million in All Funds from the 2022-23 biennium based on the following assumptions: - Continued state and agency contribution rates of 9.5 and 0.5 percent respectively; - 0.77 percent payroll growth for state agency employees in fiscal years 2023, 2024, and 2025; - 3.2 percent payroll growth for higher education employees in fiscal years 2023, 2024, and 2025; - Method of finance swaps in fiscal year 2022 of General Revenue funds with federal COVID-19 funds at the Texas Department of Criminal Justice, the Department of Family and Protect Services, the Department of State Health Services, and the Health and Human Services Commission; - FTE growth at the Permanent School Fund Corporation, the Railroad Commission of Texas, and the Texas Water Development Board; and - Statewide salary adjustments.
LECOS RETIREMENT PLAN 1.1.2	\$18,451,099	\$808,207,560	\$789,756,461	4,280.3%	Recommendations reflect an increase of \$789.8 million in All Funds from the 2022-23 biennium due to funding to eliminate the unfunded liability (\$750 million), increase the state contribution rate for this plan (\$38.8 million), and salary increases at affected agencies (\$1 million).
JUDICIAL RETIREMENT PROGRAM-PLAN 2 1.1.3	\$28,569,840	\$140,010,282	\$111,440,442	390.1%	Recommendations reflect an increase of \$111.4 million in All Funds from the 2022-23 biennium due to funding to eliminate the unfunded liability (\$105 million) and increase the state contribution rate for this plan (\$6.5 million). These increase are slightly offset by a slight decrease in estimated membership (\$0.1 million).
JUDICIAL RETIREMENT PROGRAM-PLAN 1 1.1.4	\$33,390,650	\$33,329,520	(\$61,130)	(0.2%)	Recommendations reflect almost no change from the 2022-23 biennium as the number of members is expected to be stable.
PUBLIC SAFETY DEATH BENEFITS 1.1.5	\$87,574,526	\$103,732,200	\$16,157,674	18.5%	Recommendations reflect an increase of \$16.2 million in All Funds from the 2022-23 biennium due to an increase in line of duty deaths related to COVID-19.
RETIREE DEATH BENEFITS 1.1.6	\$24,436,966	\$27,500,000	\$3,063,034	12.5%	Recommendations reflect an increase of \$3.1 million in All Funds from the 2022-23 biennium due to an anticipated increase in claims.

**Employees Retirement System**  
**Funding Changes and Recommendations by Strategy - Senate -- ALL FUNDS**

<b>Strategy/Goal</b>	<b>2022-23 Base</b>	<b>2024-25 Recommended</b>	<b>Biennial Change</b>	<b>% Change</b>	<b>Comments</b>
LEGACY PAYMENTS 1.1.7	\$836,644,861	\$1,020,000,000	\$183,355,139	21.9%	Recommendations reflect an increase of \$183.4 million in All Funds from the 2022-23 biennium due to an increase in General Revenue funds used to cover the shortfall in other methods of finance.
<b>Total, Goal 1, ADMINISTER RETIREMENT PROGRAM</b>	<b>\$2,443,606,060</b>	<b>\$3,774,407,465</b>	<b>\$1,330,801,405</b>	<b>54.5%</b>	
GROUP BENEFITS PROGRAM 2.1.1	\$3,795,964,624	\$4,061,430,620	\$265,465,996	7.0%	Recommendations reflect an increase of \$265.5 million in All Funds from the 2022-23 biennium based on the following assumptions: - the state will continue to contribute the full cost of member-only group insurance and fifty percent of family coverage; - full-time-equivalent employment levels will grow at the Permanent School Fund Corporation, the Railroad Commission of Texas, and the Texas Water Development Board; - retiree membership will grow 3.5 percent in fiscal years 2023, 2024 and 2025; - active membership will grow 1.0 percent in fiscal years 2023 and 2024; and - the state's per-member contribution to insurance will not increase in fiscal years 2023, 2024 and 2025.
PROBATION HEALTH INSURANCE 2.1.2	\$142,211,168	\$144,516,432	\$2,305,264	1.6%	Recommendations reflect an increase of \$2.3 million in All Funds from the 2022-23 biennium based on retiree growth.
<b>Total, Goal 2, EMPLOYEES RETIREMENT SYSTEM</b>	<b>\$3,938,175,792</b>	<b>\$4,205,947,052</b>	<b>\$267,771,260</b>	<b>6.8%</b>	
<b>Grand Total, All Strategies</b>	<b>\$6,381,781,852</b>	<b>\$7,980,354,517</b>	<b>\$1,598,572,665</b>	<b>25.0%</b>	

**Employees Retirement System  
FTE Highlights - Senate**

<b>Full-Time-Equivalent Positions</b>	<b>Expended 2021</b>	<b>Actual 2022</b>	<b>Budgeted 2023</b>	<b>Recommended 2024</b>	<b>Recommended 2025</b>
Cap	408.5	415.0	415.0	436.0	436.0
Actual/Budgeted	401.1	379.4	424.0	NA	NA

<b>Schedule of Exempt Positions (Cap)</b>					
Executive Director	\$357,120	\$357,120	\$357,120	\$420,000	\$420,000
Director of Investments	\$416,401	\$416,401	\$416,401	\$475,000	\$475,000

Notes:

- a) Both exempt positions at the agency are paid with funds outside the treasury and are not subject to limitations on exempt positions in Article IX, Section 3.04, Scheduled Exempt Positions. The State Auditor's Office Report, Executive Compensation at State Agencies (Report 22-706, August 2022) does not indicate a market average salary for either of these positions.
- b) The agency is increasing its FTEs mostly in order to address needs in customer benefits and human resources. Other needs addressed by the increase in FTEs include investment management, system modernization and maintenance, and data quality and security.
- c) The State Auditor's office is the source of the FY 2021 and FY 2022 annual average (actual) FTE levels.